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American Institute of Certified Public Accountants. Council

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STRENGTHEN—
ING THE
PROFESSIONAL
PRACTICE
OF CERTIFIED
PUBLIC
ACCOUNTANTS

*1967 Report of Council
to the Membership of the American Institute
of Certified Public Accountants*

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INTRODUCTION

A useful insight into what the Institute did in behalf of its members this past year—that's what this concise report offers.

It is a summary of the most important events through which the Institute sought to advance the objectives of the accounting profession during the just completed term of Hilliard R. Giffen, and was presented by the Institute's governing body to the members assembled at the annual meeting in Portland on September 25, 1967.

The report was prepared by a committee of Council composed of Roger Wellington of Massachusetts, chairman, Karney Brasfield of the District of Columbia and George S. Olive, Jr., of Indiana.

Although the regular publications of the Institute alert members as developments occur, the task of keeping members informed is becoming more difficult as the Institute grows. I would therefore encourage every member to take a few minutes to examine this overall review of last year.

MARVIN L. STONE
President

REPORT OF THE COUNCIL

*To the Members of the American
Institute of Certified Public
Accountants*

Plans provide a basis for action—and a measure for achievement.

With essentially that thought in mind, the Institute's formal planning efforts were launched a little over a decade ago with the appointment of the first long-range objectives committee by the late Marquis G. Eaton—at that time president-elect of the Institute.

Mr. Eaton was convinced that if the Institute was to remain an effective organization in a period of tumultuous change, it would have to be guided by more than sound day-to-day decisions. It would require, in his view, identification of clearly defined goals, and plans of action designed to achieve them.

This was a timely insight into the needs of the Institute.

In the ten-year interval since Mr. Eaton established a long-range objectives committee, membership in the Institute has more than doubled—and it has been trans-

formed from a relatively small organization of limited influence to a large organization with increasing responsibilities.

Two years ago, many significant issues of concern to the profession which had been identified by the Long-Range Objectives Committee were summarized in Mr. Carey's book, *The CPA Plans for the Future*. The book suggested future goals of the profession, but did not attempt to offer any definitive program for their attainment. The task of developing action programs was assigned to a new planning committee. Now from the deliberations of this committee is emerging a series of position papers intended to guide the Institute toward its goals, and to provide means of measuring its progress.

One of these papers is devoted to public relations. With the approval of the executive committee, it was published in a recent issue of *The Journal*. Another paper on the competence of CPAs, concerned largely with educational policies, is now being exposed for comment. Others will follow.

Underlying these documents is the first paper issued by the committee—*A Description of the Professional Practice of Certified Public Accountants*, which offers a conceptual framework for the varied services rendered by CPAs. Approved last fall by Council as an official statement of Institute policy, the paper was reprinted in leaflet form and distributed to all members and to thousands of teachers and students. It will continue to be published in future editions of the pamphlet containing the bylaws and Code of Professional Ethics.

This *Description* also provides a convenient framework for this 1967 report of the Council—permitting the diverse activities of the year to be viewed in meaningful relationships to the goals.

For example, the *Description* says:

“Although their activities may be diverse, all CPAs have demonstrated basic competence of professional quality in the discipline of accounting. It is this which unites them as members of one profession, and provides a foundation for extension of their services into new areas.

“. . . The professional quality of their services is based upon the requirements for the CPA certificate—education, experience and examination. . . .”

During the year under review, several of the Institute’s activities were directed to the commitment to maintain high standards for the CPA certificate.

The report on the body of knowledge which should be shared by all CPAs was published under the title, *Horizons for a Profession*. Educators from nearly 650 colleges and universities, as well as practicing members, are discussing the study at 50 seminars arranged by the Institute at various sites around the country.

With the publication of *Horizons for a Profession*, an ad hoc committee on education and experience requirements has been appointed to conduct a reappraisal of the Institute’s policies in the light of the recommendations advanced in the report.

The Institute has also shared in the work of the Standing Committee on Education—a committee composed of representatives from the Institute, the American Accounting Association, The National Association of State Boards of Accountancy and the American Association of Collegiate Schools of Business. It has developed a co-operative arrangement to facilitate the evaluation of the educational background of CPA candidates, particularly those from schools with

nonaccredited programs which are not known to state boards of accountancy.

Another ad hoc committee, at the suggestion of the Institute's Board of Examiners, is engaged in a study of the content of the Uniform CPA Examination.

The statutory requirements for education and experience were also discussed in the fall of 1966 at the Institute's second national conference on state legislation for representatives of state societies. The published proceedings should be helpful in establishing legislative policies.

The *Description* not only speaks of the standards of qualification for admission to the profession's ranks; it points indirectly to the need for recruits of high caliber, as follows:

“. . . accounting requires not only technical knowledge and skill, but even more importantly, disciplined judgment, perception and objectivity.”

Throughout the year, the Institute has directed an intensive campaign to attract an increasing number of top-flight students to the profession.

The success of the Institute's new film entitled *Inc.*—a visual study aid for high school social studies classes—seems assured. College preparatory teachers in high schools have spoken highly of it, as well as of the study guide which accompanies it. Television showings during the year drew an estimated audience of nearly 1.4 million.

The distribution center for the Accounting Careers Council, which sends recruit-

ing materials to more than a half million students each year, was moved to the Institute's headquarters recently.

The Bureau of Applied Social Research at Columbia University completed a study, sponsored by the Institute, which has provided new knowledge about recent recruits to the accounting field. It suggests, for example, that a higher proportion of the profession's recruiting effort should be channeled to the college level. The author of that study, Dr. Thielens, is one of the featured speakers at this annual meeting's technical session devoted to the manpower problem.

The *Description* claims a larger educational role for the profession than has been so far indicated. It says this:

“Within the broad field of accounting, certified public accountants are the identified professional accountants. They provide leadership in accounting . . . education.”

In addition to the efforts already mentioned, representatives of the Institute and the American Accounting Association have conferred on several occasions this year to explore additional ways in which the two organizations might join in advancing their common aims. Projects designed to accomplish these objectives include:

- Establishment of an AICPA visiting professorship
- Sponsorship of an accounting literature awards program in co-operation with the AAA

- Authorization of a history of the Institute for the benefit of future students
- An increase in the funds available for research grants
- Retention of educators as consultants for Institute activities in their specialized fields
- Appointment to the Institute's full-time staff of several professors who are able to obtain one- or two-year leaves of absence from their professional institutions

The Institute has also accelerated its program of diversified professional development, having now 46 different courses which provide 85 days of instruction. As a result, an all-time high of more than 17,000 registrants participated in Institute-sponsored or co-sponsored programs of continuing education.

The new professional development courses include: management for results, audits of savings and loan associations, tax accounting problems, corporate income tax returns, hospital accounting and medicare audits, systems flowcharting, program flowcharting and decision tables, and inventory management.

In addition, two experimental approaches were adopted. A programmed learning text introducing statistical concepts and estimation of dollar values was published for home or office use, and a panel discussion on the taxation of multiple corporations was released on records.

The *Description of the Professional Practice of Certified Public Accountants* also attributes the professional quality of the serv-

ices rendered by CPAs to the “. . . ethical and technical standards established and enforced by their profession.”

One of the major tasks in establishing ethical standards is to ensure that those standards continue to be valid in the light of the changing environment of practice.

The issuance this year by the committee on professional ethics of revised Opinion No. 7 on data processing services and Opinion No. 9 on responsibility for firm publications, newspapers and magazine articles was in response to this need. Ethics Opinion No. 7 now permits practitioners to offer data processing services in corporate form to other practitioners, but not to the public. However, the availability of block time on EDP equipment may be advertised to the public if it does not provide a feeder to the member's practice and if the involvement of a CPA, including his name, is not disclosed. Ethics Opinion No. 9 now encourages CPAs to make statements on subjects of public interest to the press and thereby contribute to the public awareness of the profession. However, it continues to prohibit deliberately cultivated publicity which advertises the firm's professional attainments or services.

Other aspects of the changing practice environment prompted the appointment of an ad hoc committee to re-examine the present rule prohibiting the incorporation of CPA firms.

A substantial effort has also been in progress throughout the year to strengthen technical standards—particularly in the area of accounting principles.

Accounting Principles Board Opinion No. 8 on accounting for the cost of pension plans was issued late in 1966. It should substantially narrow unjustified differences in financial reporting in this important area. Shortly thereafter, Opinion No. 9 on

reporting the results of operations was released. It attracted the support of the New York and American Stock Exchanges. Chairman Manuel F. Cohen of the Securities and Exchange Commission called it "a long step forward and in the best traditions of the accounting profession." Issued at the same time was APB Opinion No. 10, the 1966 Omnibus Opinion.

More recently, the Accounting Principles Board has approved a special statement on supplemental disclosure of financial information for diversified companies.

A proposed opinion on accounting for income taxes in financial statements is being exposed to the regular list of 7,000 interested individuals and organizations and, because of its significance, to the entire membership as well. The marked differences in views with regard to this proposed pronouncement will impose a severe test of the Accounting Principles Board's ability to fulfill its mission of narrowing important differences in financial reporting.

The Board has on its crowded agenda a number of other subjects: price-level changes, public utilities, changes in the application of accounting principles, and interim financial statements.

Accounting research studies normally precede APB opinions. Research studies in progress include inter-corporate investments, foreign operations, goodwill and business combinations, research and development expenditures, extractive industries and corporate stockholders' equity.

The cost of this vitally important work of the APB and its research division is inevitably rising as the pace of production is accelerated. Research needs in areas other than accounting principles are also increasing. After extensive study and discussion it became evident that research at

expected levels cannot be financed entirely from individual membership dues if other activities of the Institute are to be continued. And it should be added that the costs of these other activities, and their relative importance, are under continuous systematic examination.

It has been decided, therefore, that research should be largely supported by the firms and practitioners represented in the membership. It is for the benefit of firms and practitioners that most Institute research projects are primarily designed.

Accordingly, the Council recently authorized formation of the Accounting Research Association, Inc., a nonprofit business league whose objective is solely to support accounting research. Dues of firms and practitioners who join the Association are on a bracket system, based roughly on \$10 a year for each partner and professional employee. Membership of participating firms and practitioners will be indicated clearly in the list of firms published biennially by the Institute and distributed widely outside the membership. Research studies also will be made available to the participants on a preferential basis. In addition, they will be kept regularly informed about developments in the research program through a special newsletter.

The Institute's concern for strengthening technical standards naturally includes auditing. The *Description* expresses the reason succinctly:

“CPAs have a distinctive role in examining financial statements submitted to investors, creditors and other inter-

ested parties, and in expressing independent opinions on the fairness of such statements.”

The Institute’s committee on auditing procedure recently approved a statement designed to clarify the CPA’s responsibilities in connection with unaudited financial statements. The committee has also approved a statement on working papers. A proposed statement on correction of opinion is in progress, as well as possible revision of the standard short-form report.

Voluntary health and welfare organizations were the subject of an audit guide published this year in response to the growing importance of the nonprofit sector of the economy.

A manual on auditing EDP-based records was completed and will be available early in 1968.

An audit guide for banks is nearing completion.

Of the several other audit guides in preparation, one on personal financial statements assumes special significance with the approach of the 1968 presidential election. Arrangements have been made to expedite its completion well in advance of the election.

The attest function, however, is expanding—as the *Description of Professional Practice* explains:

“This distinctive role has inevitably encouraged a demand for the opinions of CPAs on a wide variety of other representations, such as compliance with rules and regulations of government

agencies, sales statistics under lease and royalty agreements, and adherence to covenants in indentures.”

The federal government continued to request the assistance of the profession in many of its programs—an estimated 48,000 engagements were required or encouraged by federal agencies last year.

The new massive health program required substantial effort from the Institute’s committee on Medicare. It met with representatives of the Social Security Administration, the Department of Health, Education, and Welfare, and the Blue Cross Association to assist in the development of guidelines for conducting cost-reimbursement examinations under the program.

The *Description* also points out that:

“Among the major management problems depending on the accounting function is compliance with tax requirements. An important part of the practice of CPAs includes tax planning and advice, preparation of tax returns, and representation of clients before government agencies.”

In pursuit of high standards of performance in the tax area, the committee on federal taxation completed a draft of another statement in its series on the CPA’s responsibilities in tax practice. This one is devoted to the CPA’s obligations when he has knowledge of an error in a client’s return. Other proposed statements are in progress.

As a direct service to members, the Institute will soon initiate a publications pro-

gram of technical studies in federal taxation—with particular emphasis on common tax-planning problems.

Considerable attention was also directed to the establishment of technical standards in another major area of service covered in the *Description* by the following paragraph:

“In addition to furnishing advice in conjunction with their independent examinations of financial statements, CPAs are engaged to provide objective advice and consultation on various management problems. Many of these involve information and control systems and techniques, such as budgeting, cost control, profit planning, internal reporting, automatic data processing, and quantitative analysis. CPAs also assist in the development and implementation of programs approved by management.”

Two management services technical studies were completed this year: one on analysis for purchasing and financing productive equipment, and the other on analysis for purchase or sale of a business.

In response to the need for current and continuing information about computers, the Institute made subscriptions to the *Auerbach Computer Notebook for Accountants* available to members in public practice at a special reduced rate. This is a continually updated reference work, designed to keep the professional accountant informed about computer equipment and software, computer capabilities and performance, and accounting-oriented developments in computers.

A special study on the accountant's use

of computers to carry out work on behalf of clients is being prepared for publication by Dr. Gordon Davis, who has served as the Institute's computer consultant.

In harmony with the *Description*, the profession also sought improvement in enforcement of its ethical and technical standards.

During the year, President Giffen urged a full exchange of information regarding disciplinary matters among the Institute, state societies and state boards of accountancy. This matter of co-operation in the enforcement of the ethical rules will be further discussed at the Institute's first National Conference on Professional Ethics in New York in October 1967.

During the year under review, 53 formal inquiries on professional conduct were processed by the ethics committee, and more than 1,000 telephone, written or in-person inquiries were handled by the staff on the basis of committee precedent. Seventy-two cases of alleged violations were investigated, leading to 11 hearings before the Trial Board or one of its sub-boards.

The Institute's bylaws were revised to permit the automatic suspension of members who have been convicted of serious crimes or who have lost their certificates for disciplinary reasons. The revision also permits reinstatement of expelled members after three years.

Members have been informed through *The CPA* of the successive steps taken with respect to the status of Rule 3.03 on competitive bidding.

As members will recall, the repeal of Rule 3.03 was recommended by Council last year on the basis of advice from the Institute's regular and special legal counsel

that it subjected the Institute to risks under the federal anti-trust laws. Although a majority of the voting members favored repeal, the vote fell short of the two-thirds majority required by the by-laws for amendment.

Shortly after the spring Council meeting, the Institute's legal counsel resumed conversations with Department of Justice representatives and argued in defense of the legality of the rule. Justice Department representatives were not willing to express agreement with arguments in defense of the rule and proposed that the Institute make a second attempt to repeal the rule. They were persuaded only after some discussion to accept for the present an announced policy of nonenforcement.

In accordance with the Council's decision at the spring meeting, announcements that the rule will not be enforced unless and until there is a change in circumstances justifying a changed opinion as to its legal status have been made in *The CPA* and in the new printed pamphlet containing the Code of Professional Ethics.

With the concurrence of legal counsel, however, the Institute intends to seek every opportunity to persuade government authorities and others of the undesirability of obtaining professional accounting services on the basis of competitive bids—as well as to remind members of Opinion No. 18 of the ethics committee which declares that the quotation of a fee which is clearly inadequate to provide fair compensation for performing a service in accordance with accepted professional standards may be evidence of a violation of the solicitation rule.

Both of these points are covered in a column prepared by the administrative vice president with the approval of the Executive Committee and the Institute's legal

counsel. It appeared in the September 1967 issue of *The CPA*.

The Institute will also follow vigilantly any development which might reduce or eliminate the present concern over the legal status of the competitive bidding rule.

The ethical and technical activities of the Institute were supported by various efforts to facilitate communication and understanding between the profession and important segments of the public.

News stories about recent APB Opinions have appeared in most of the major newspapers of the country—several of them prepared by journalists who had previously attended one of the Institute's seminars for financial writers.

As mentioned earlier, an ad hoc committee has been exploring the basis and extent of public concern over the independence of accounting firms which render both auditing and management services to the same client. Critics and representatives of the financial community have been invited to discuss their concerns with the committee. One of the technical sessions at the 1967 annual meeting is devoted to this subject.

In a move to underscore the independence of auditors, the Executive Committee issued a statement recommending that each publicly owned corporation appoint a committee composed of outside directors to nominate the independent auditor and discuss his work with him. With the co-operation of many of the nation's major stock exchanges, reprints of this statement in leaflet form have been mailed to the presidents of thousands of listed companies. Members who wish to use the reprints with

their clients may obtain them from the Institute.

More than 20,000 copies of a booklet recently published by the National Conference of Bankers and CPAs will explain to bankers across the country the meaning and significance of the auditor's report.

The services of CPAs will be featured in one of the TV films in a series produced by the National Association of Manufacturers.

In response to requests from many organizations, thousands of reprints of a layman's guide on the preparation of financial statements for churches have been distributed.

Press relations have been improved. In the past six months, 170 items have appeared which are considered favorable to the accounting profession, and only two regarded as negative.

One by-product of these and similar efforts to increase public awareness of the profession may well be a further reliance on CPAs for general advice and assistance on a multitude of matters.

The *Description* notes the existence of this service image in these paragraphs:

"CPAs also participate in conferences with government agencies such as the Securities and Exchange Commission, and with other interested parties, such as bankers.

"Like other professional men, CPAs are often consulted on business, civic and other problems on which their judgment, experience, and professional standards permit them to provide helpful advice and assistance."

More than 25 CPAs now serve in significant policy positions in the federal govern-

ment or on major advisory commissions at the agency level or higher. Former Institute president Robert M. Trueblood, for example, was recently named by President Johnson to a nonpartisan commission to make the federal budget a more understandable and useful instrument of public policy and financial planning.

Representatives of the Institute's committee on federal taxation have met regularly with the Commissioner of Internal Revenue, Treasury officials and the staff of the Joint Committee on Internal Revenue Taxation. The tax committee has co-operated with the IRS in developing revenue rulings, such as the ones proposed for the allocation of overhead to inventory and for changes in accounting methods not requiring the consent of the Commissioner. Comments were also submitted on the Treasury's proposed consolidated tax return regulations, as well as on proposed revisions of tax forms and instructions.

Many of the Institute's previous recommendations to the tax-writing committees of Congress have been enacted into law. Key Congressional committee chairmen and other members of Congress recently received the tax committee's booklet of 83 recommendations for revision in the Internal Revenue Code. Comments, in addition, were submitted to the House Ways and Means Committee on current tax legislation.

John Gardner, Secretary of the Department of Health, Education, and Welfare, has suggested that the accounting profession initiate a continuing dialogue with top-level representatives throughout the federal government on broad policies and principles related to accounting and auditing. The opportunity for public service im-

plicit in that suggestion will be vigorously pursued in the coming year.

While broadening its concern for the place of the profession in society, the Institute has not lost sight of the fact that more direct assistance to members is needed as well.

Some of these services have already been noted in this report. A few more deserve to be mentioned.

One troublesome problem is the heavy workloads confronting practitioners during the tax season. Prior to the 1967 tax season, representatives of the Institute's tax committee met with IRS Commissioner Cohen to discuss extensions of time for filing individual returns. The Commissioner then issued internal guidelines clarifying the Service's policy on extensions to the regional commissioners and district directors in a manner which implied that substantial weight should be given to the CPA's workload in evaluating extension requests. The committee has since surveyed practitioners to determine their actual experience under the policy, and the results will be presented to IRS officials soon.

Three more publications in the series on management of an accounting practice were issued last year—covering the purchase, sale and merger of small accounting firms; record filing in an accounting office; and the results of the latest survey on firm revenues and expenses.

Also, the library and Technical Information Service, *The CPA*, *The Journal of Accountancy*, *Management Services* and *Accounting Trends & Techniques* are continuing services to members.

State societies, of course, also rendered many services to members. Some of these were the subject of discussions at the Institute's conference on state society leadership which was held last December to assist state society presidents-elect to plan for their year as presidents.

During the year, the Institute adopted a number of measures designed to expand its capacity for serving its members.

Further progress was made toward implementing the recommendations of the committee on structure adopted by Council at its May 1966 meeting.

The last report of Council to the membership noted that the Executive Committee intended to employ an outstanding CPA to head all of the technical activities of the Institute and to serve as a principal spokesman for the organization. The report described this as an intermediate step to the proposal, advanced by the structure committee, calling for the establishment of the presidency of the Institute as a full-time paid position. This proposal was left open as one of the possible courses of action which might be taken when sufficient experience had been accumulated with the new arrangement.

An extensive search for a man qualified to fill the new post ended successfully with the engagement of Leonard M. Savoie, who reported for duty on July 1. He has been granted the title of Executive Vice President and, for the sake of consistency, the Executive Director has been given the additional title of Administrative Vice President.

Meanwhile, prompted by the structure

committee's report, a comprehensive study of the Institute's organization has been conducted by the executive committee and staff. Proposals which do not involve by-law changes will be put into effect gradually by administrative action. Those requiring bylaw changes were approved in substance by Council at its meeting on September 23.

Specific bylaw amendments to make these changes effective will be drafted for action at the spring meeting of Council, presented to the next annual meeting, and then submitted to the entire membership in a mail ballot. If adopted, they would become effective in the spring of 1969.

Briefly, these changes would have the following effect:

- Council members would be elected by mail ballot of the members in their respective states, instead of by voice vote of the members present at the annual meeting.

- The newly elected Council members would sit with the retiring members at the Council meeting immediately preceding the annual meeting; the so-called "organization meeting" following the annual meeting would be eliminated.

- The Council would elect the officers as well as the other members of the Executive Committee.

- Major committees would be appointed by the president, subject to approval of the Executive Committee, rather than being elected by Council, as at present.

- Committees dealing with related subject matter would be organized in five or six groups, each headed by an

executive body, assisted by a staff director and assistants.

- The principal staff officers would continue to be elected by Council.

- The bylaws would provide that only the members could amend those provisions affecting the status, rights and privileges of members, including the Code of Ethics; but Council could amend provisions dealing with the organization, management and procedures of the Institute itself.

Council also approved in principle a proposal to amend the bylaws to establish an international associate class of membership for overseas graduates of accredited American universities who successfully pass the Uniform CPA Examination and do not intend to practice in the United States. The objective of the proposal is to promote the use and acceptance of American accounting principles and auditing standards.

As indicated by the excerpts from the *Description of the Professional Practice of Certified Public Accountants* which have been quoted in this report, the contribution of professional accounting to society can be an impressive one.

But it will be in a position to make such a contribution only if, as Mark Eaton recognized, the Institute serves the profession well by effectively planning for the future.

This report, like all similar reports, has talked about the year's achievements; but these achievements are mere additions to a long record of accomplishments. Some of

the new ones may endure. Yet it is almost certain that most of them will need to be replaced by new advances—for the environment of the future will be as different from the one we know today as today's environment differs from the one which Mark Eaton knew when he summoned the Institute to the task of planning its own destiny.

If the Institute has been ready for the changes which have occurred in the last decade—and prepared for the further changes which will occur in the next one, it is due in no small measure to his vision and to the many members who were inspired by it.